

Message Text

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TAGS: ENRG OPEC

SUBJ: VENEZUELA'S VIEW OF THE OIL PRICE QUESTION

REF: STATE 264256

1. AS WE GO INTO THE FINAL MONTH BEFORE THE OPEC MEETING, AN EMBASSY ESTIMATE OF HOW VENEZUELA VIEWS THE PRICE QUESTION MAY BE USEFUL. THE VENEZUELAN PERSPECTIVES AND MIND SETS DESCRIBED BELOW STRONGLY INCLINE THEM TOWARD A MODERATE BUT SIGNIFICANT PRICE INCREASE, AND WILL INFLUENCE THEIR RESPONSE TO A DEMARCHE FROM US.

2. NEED FOR OIL EARNINGS

VENEZUELA, UNLIKE SEVERAL OF THE OPEC COUNTRIES, MUST MAINTAIN A HIGH AND RISING FLOW OF FUNDS IF ITS ECONOMIC DEVELOPMENT PROGRAMS ARE TO BE ACCOMPLISHED. MORE THAN THIS, OIL FUNDS ARE THE ECONOMIC FORCE THAT GIVES THE ENTIRE ECONOMY ITS DYNAMISM UNFORTUNATELY, THE LEVEL OF IMPORTS GENERATED BY THE FORCED-DRAFT ECONOMIC ACTIVITY IS EXPECTED TO EXCEED THE PROCEEDS FROM OIL EXPORTS IN 1978, WITH GROWING DEFICITS THEREAFTER. FURTHERMORE, VENEZUELA DOES NOT HAVE THE OPTION OF INCREASING ITS 2.1 - 2.3 MILLION BARRELS PER DAY OUTPUT. THE OIL FIELDS ARE FOR THE MOST PART MATURE OR DECLINING ONES, AND LARGE OUTLAYS FOR EXPLORATION PLUS CONSIDERABLE TIME LAG

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WILL BE NECESSARY BEFORE PRODUCTION CAN BE INCREASED. A PRICE INCREASE IS THE ONLY WAY TO SIGNIFICANTLY INCREASE EXPORT EARNINGS.

3. VENEZUELAN VIEW OF TERMS OF TRADE.

GOV HAS ITS OWN ESTIMATES OF THE RELATIVE MOVEMENT OF TERMS OF TRADE, AND THEY DO NOT MATCH OURS. THEY WILL NOT ACCEPT

ARGUMENTS WE MAKE THAT ARE BASED ON OUR TERMS OF TRADE PREMISES. USING THEIR ESTIMATES, THEY ARE CONVINCED THAT THE HIGHER PRICES THEY ARE PAYING FOR THEIR IMPORTS JUSTIFY AN INCREASE IN OIL PRICES. THEIR POSITION IS STRENGTHENED BY THE DEPRECIATION OF THE DOLLARS THEY RECEIVE IN PAYMENT FOR THEIR OIL. THEY ARE CONVINCED THAT THE REAL PRICE OF OIL TO THE DEVELOPED COUNTRIES HAS DECLINED SINCE 1974.

4. OPEC SOLIDARITY.

IN PRESIDENT PEREZ' VIEW, THE VENEZUELAN DEMOCRATIC SYSTEM CAN ONLY SURVIVE IF THE COUNTRY'S DEVELOPMENT NEEDS ARE MET BY INCREASED PETROLEUM REVENUES TO OFFSET THE INCREASING COST OF DEVELOPMENT. IN TURN, SUCH REVENUES DEPEND DIRECTLY ON OPEC PRICE SOLIDARITY WHICH IS A CARDINAL TENET OF VENEZUELA'S FOREIGN POLICY. THIS TENET ALSO ASSUMES THAT OPEC WILL BE USED AS A LEVER IN NEGOTIATING THE NEW INTERNATIONAL ECONOMIC ORDER, WHICH VENEZUELA, UNDER PEREZ, HAS CHAMPIONED DURING THE LAST THREE YEARS. SERIOUS DIVISIONS OR EVEN THE APPEARANCE OF VACILLATION WITHIN OPEC ARE, THEREFORE, TO BE AVOIDED, IF AT ALL POSSIBLE.

5. APPROACHING THE SOLIDARITY QUESTION FROM ANOTHER DIRECTION, GOV PERCEIVES THAT IF PRICES ARE NOT INCREASED, ENOUGH OF THE OPEC COUNTRIES NEED THE HIGHER TOTAL REVENUE TO TEMPT THEM TO BREAK THE PRICE LINE IN ORDER TO INCREASE EXPORT VOLUME AND THUS REVENUE. THIS BREAKING OF THE CARTEL MUST BE AVOIDED
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BY MOVING THE PRICE UP MODERATELY.

6. MARKET FACTORS.

GIVEN THE GROWTH IN DEMAND FOR IMPORTED OIL IN THE US AND EUROPE AND THE APPARENTLY PRICE INELASTIC DEMAND, THE GOV BELIEVES IT CAN SELL ITS OIL AT HIGHER PRICES.

7. ADJUSTMENT CAPACITY OF OIL IMPORTING COUNTRIES.

THE GOV IS NOT CONVINCED THAT THE DEVELOPED COUNTRIES THEMSELVES OR A HEALTHY WORLD ECONOMY IN GENERAL ARE SERIOUSLY JEOPARDIZED BY FURTHER PRICE INCREASES. IN PART THIS STEMS FROM THE COLOSSUS OF THE NORTH COMPLEX, I.E. THE GOV TENDS TO VIEW THE US AS A VERY STRONG ECONOMY, CAPABLE ALONG WITH THE OTHER DEVELOPED COUNTRIES, OF PERIODICALLY ABSORBING OIL PRICE INCREASES. THIS PERCEPTION IS REINFORCED BY THE VENEZUELAN'S KNOWLEDGE THAT THE US IS A PROFLIGATE CONSUMER OF ENERGY AND HAS DONE LITTLE TO CHANGE THIS. IF A VIGOROUS OIL CONSERVING ENERGY PROGRAM WERE TO BE PUT INTO EFFECT, VENEZUELA PERCEPTIONS MIGHT BEGIN TO CHANGE.

8. GOV ALSO HAS WITNESSED THE RELATIVELY SMOOTH WAY IN

WHICH THE ABRUPT REDIRECTION OF FUNDS TO THE OIL PRODUCERS HAS BEEN ACCOMMODATED IN THE LAST THREE YEARS THRU INTERNATIONAL CAPITAL MARKETS AND COOPERATION VIA THE IMF AND OTHER INTERNATIONAL ORGANIZATIONS. GOV BELIEVES THIS PROCESS CAN CONTINUE AND, TO ASSIST THE PROCESS, POINOS TO THE 4.5 BILLION DOLLARS IN ASSISTANCE GOV HAS MADE AVAILABLE TO DEFICIT COUNTRIES AND INTERNATIONAL INSTITUTIONS, NEARLY ALL OF WHICH ARE DESIGNED TO ALLEVIATE THE DISEQUILIBRIUM AND THE FOREIGN EXCHANGE SHORTAGES AMONG OIL IMOPORTERS THAT HIGHER PRICES HAVE ENGENDERED. VENEZUELA IS DISPOSED TO MEET THE FUTURE COMPLAINTS OF OIL IMPORTING NATIONS BY THIS MEANS RATHER THAN PRICES.

9. POLITICAL FACTORS

1978 IS A PRESIDENTIAL ELECTION YEAR IN VENEZUELA AND THE
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PEREZ ADMINISTRATION MUST CONTINUE T PROTECT ITS FLANK BY DEMONSTARTING THAT DURING ITS LAST YEAR IN OFFICE THE RECENTLY NATIONALIZED PETROLEUM INDUSTRY IS WELL RUN AND THAT REVENUES FROM THAT INDUSTRY IN REAL TERMS HAVE NOT DECLINED.

10. CONCLUSIONS

CLEARLY VENEZUELAN ECONOMIC AND POLITICAL SELF-INTERST AND ASPIRATIONS ARE CLOSELY TIED TO RISING OIL REVENUES, AND THEIR OWN VIEWS AS SUMMARIZED ABOVE REGARDING THE PRICING ISSUE ARE STRONGLY HELD. EVERY POINT IN ANY APPROACH WE MAKE WILL BE RESISTED, SOME WILL BE REJECTED OUT OF HAND.

11. THE BEST POSSIBILITY AS WE SEE IT IS TO STRESS THE DANGER THE HIGHER PRICES POSE TO THE STABILITY OF THE WORLD ECONOMY, INTERNATIONAL TRADING PATTERS AND PARTICULARLY TO THE OIL-CONSUMING DEVELOPING COUNTRIES. THE ADJUSTMENT MECHANISMS OVER TIME WILL CREATE DEBT BURDENS FOR THE DEVELOPING COUNTRIES WHICH THEY WILL NOT BE ABLE TO MEET. THE ADJUSTMENT PROCESS FOR ALL COUNTRIES CHRONICALLY IN DEFICIT (IN SIGNIFICANT PART BECAUSE OF OIL IOMPORTS) WILL BECOME MORE DIFFICULT. THE GENERAL INFLATION, DISTORTION, IMPEDIMENT TO RECOVERY AND INDUCEMENT TO RECESSION GENERATED BY CONTINUED HIGHER OIL PRICES CAN WEAKEN THE VERY STRUCTURE WHICH VENEZUELA ITSELF DEPENDS ON IF ITS GOALS AS A DEVELOPED, DIVERSIFIED ECONOMY AND A CONTINUING DEMOCRATIC SOCIETY ARE TO BE ACHIEVED.
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